

UNITED STATES OF AMERICA
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

Before Commissioners:

Dan G. Blair, Chairman;
Dawn A. Tisdale, Vice Chairman;
Mark Acton; Ruth Y. Goldway;
and Tony Hammond

Service Standards and
Performance Measurement
For Market Dominant Products

Docket No. PI2007-1

COMMENTS OF NATIONAL NEWSPAPER ASSOCIATION
ON MODERN SERVICE STANDARDS AND PERFORMANCE
MEASUREMENT FOR MARKET DOMINANT PRODUCTS
(July 16, 2007)

The National Newspaper Association hereby provides its responses to the request for comments on Modern Service Standards and Performance Measurement for Market Dominant Products. These comments are submitted pursuant to Order No. 21 in this docket.

The National Newspaper Association (NNA) is a 2,500 member trade organization. NNA represents owners, publishers, and editors of America's community newspapers. NNA has frequently appeared before this body's predecessor, the Postal Rate Commission, with testimony on chronic problems in the periodicals delivery outside originating SCF areas. Recently NNA submitted testimony through its board member, Dave Berry, vice president of Community Publishers, Inc., Bolivar, MO, on problems within local markets because of slowdowns in mail processing both in originating and destinating facilities.

Because service delayed is service denied for most periodicals, this topic is at or near the top of the list of concerns of community newspapers with the

development of rules under the Postal Accountability and Enhancement Act (PAEA)'s requirements in 39 U.S.C. §§ 3691(b)(1)(D), (b)(2). NNA's comments here are pertinent primarily to the periodicals mail class, but in some cases, comments are equally valid for other classes. NNA's key concerns follow:

- I. While existing service standards are acceptable if the integrity of the current informal CD-based service standard system now used by mailers is respected, the Commission should develop a public database and a petitioning process for mailers to ensure that standards do not erode over time, particularly for rural areas or urban centers where plant failures affect large area of service.
- II. Internal measurements by USPS are necessary but must include service areas not measured by electronic scans.
- III. The Value of the Mail Criterion Now Requires Consideration of Recipients as well as Mailers

NNA therefore provides these comments.

- I. While existing service standards are acceptable if the integrity of the current informal CD-based service standard system now used by mailers is respected, the Commission should develop a public database and a petitioning process for mailers to ensure that standards do not erode over time, particularly for rural areas or urban centers where plant failures affect large area of service.

a. The standard should be the floor for all mail within a class.

NNA is a participant in several dialogues with USPS, along with other mailers, on development of standards and measurement of service. At one time,

standards were measured from the centers of the periodicals zones in the rate schedule, with each zone requiring approximately one additional day of travel. At this time, it appears as if this traditional system will be replaced by standards between 3 digit zip code pairs that USPS has provided mailers in electronic CD format for the past several years. Witness Berry discussed the development of these newer standards in his testimony on June 21 during the Commission's field hearings in Kansas City, MO. He represented the association's view that the standards are acceptable in concept, and as most recently published, they seem to meet the needs of newspapers. However, it is not entirely clear that the service standards published as recently as this year will be the ones to which USPS plans to commit itself. USPS is likely to make adjustments before finally releasing them as a standard by which measurement will be made. Mailers will have to reserve judgment until the final set is released.

Though this one key benchmark seems to be shaping up as community newspapers would wish, the devil is in the details. And it seems as if many details are yet to be settled.

1. The effects of drop shipping.

The 3 digit pair system more accurately reflects the way mail is moved now than older standards set by a zones-and-days system. Certainly since the 1996 reclassification of periodicals, major changes in service occurred, many of them detrimental to smaller periodicals. The 3 digit pairs are now more reflective of actual practice. NNA agrees that, barring dramatic alteration in expectations between the individual pair sets, the Postal Service is on the right track. However, drop-shipping and the composition of mail traveling between the pairs will raise questions about measurement of service for drop-shipped or high density portions of the periodicals mailstream.

NNA believes that the standard by which the Commission should judge performance is the expectation of the 3 digit pair for the most basic mail. That standard should be the floor below which mail service should not drop. Many mailers may achieve better service through drop-shipping. The service to be achieved by mailers' drop shipping within a 3 digit pair may be expressed as goals, but should not lead to myriad sets of standards within the class.

Individual mailers will expect and should receive data about the achievement of goals, for which data USPS is likely to charge a fee. NNA is agnostic on the need for publication and review of data for drop-shippers beyond those users: perhaps an aggregate measure of destination entered mail will be needed in time. But the measurement of the achievement of the standards or floor for the basic mail should be regularly published for all and should be accessible without a fee. Also, mailers, the Commission and the Service should work together to ensure that, even if network realignments and automation change the goals, the standards will not become an ever-deepening basement for less finely prepared, rural, low density or small business mail.

2. The effects of mail preparation should not affect standards.

It may be argued that the standards should be adjusted to address the containerization or presort degrees involved in a mailing type, both of which are elements relating to density and volume. NNA would argue again that mail meeting the basic preparation requirement should be delivered within the standard. Mailers achieving higher degrees of preparation may earn better service. NNA does not see the need for creation of either standards or goals by mail preparation categories by container at this time. Because of the closer working relationship and potential development of products provided on a fee basis to larger mailers, these mailers are likely to be able to access the information they need without the Commission's involvement.

b. The cumulative effects of changes within the pairs should be tracked by the Commission through a database.

Initially, the Postal Service is likely to publish standards within its stated 3 digit pairs for periodicals that are relatively close to the standards in place in recent months, NNA believes. But standards, of course, may shift and change as plants are opened and closed and new business rules are implemented.

As network realignment occurs, FSS is deployed and mail processing becomes ever more concentrated in urban areas, a devolution to poorer mail service in rural areas may occur. It is also possible that further concentrations of mail volumes in urban areas—such as Chicago, whose problems were subject of a recent Congressional hearing—which have presented challenges for a variety of reasons over the years, will lead to deteriorating performances downstream of those plants. In both cases, the Postal Service may be tempted to lower the standards rather than to improve the service. NNA believes the Commission's involvement in this aspect of USPS performance measurement is in place to guard against the temptation. Therefore, the ultra-urban and the ultra-rural service areas are two elements where the Commission's role as monitor is key.

A weakening of a single 3 digit pair by one day, for example, is not likely to draw much public attention—even from mailers--but over time, that pair could erode and continue to decline, albeit by a single digit adjustment each year. A shift in a set of 3 digit pairs resulting from a service failure in an urban plant is less likely to escape mailers' attention. But both circumstances should draw the Commission's attention, if only to note the change. Then the Commission may draw its own conclusions or initiate inquiries prompted by mailers to determine why changes happened and whether they have affected the mandates under PAEA. Still, opening a floodgate to a docket for perpetual review of minor

changes would be unwise and not in the spirit of PAEA. NNA, therefore, recommends a transparency-oriented solution within the Commission's rules.

First, the Commission should have its own tracking system for changes. Some mailers have suggested that when a 3 digit pair standard is changed, the service standard CD released to mailers should have an "update notes" section noting the changes. NNA would suggest that the Commission request that USPS provide such "update notes," which are common in new software releases. The Commission should monitor these changes through the same electronic systems available to mailers, and develop a database to keep track of changes over time. The database should be publicly available through the Commission.

Second, the Commission should enact rules for mailer petitions for the Commission to inquire into patterns of weakening service. It should also allow for *sua sponte* inquiries by the Commission or those initiated by the Office of the Consumer Advocate. Its rules should make clear that inquiries are appropriate only when service degrades within a large number of 3 digit pairs—as would be expected if an urban center fails—or when service to a specific area degrades in small increments but over an extended period, as would be expected if rural service were neglected.

By providing both a mailer-accessible database and a petition format, the Commission can carry out its own monitoring role. It can also develop information for its periodic reports to Congress.

- II. Internal measurements by USPS are necessary but must include service areas not measured by electronic scans.

The Postal Service, of course, will develop a measurement system for each Market Dominant mail class. It can be expected to strongly suggest that only its own system has statistical validity, and sanctions should be applied, if at

all, only when the Postal Service's internal measurement displays a failure to meet its internally set standards.

NNA would prefer that the Postal Service's own measurement system be used for the primary measure so long as it is comprehensive and transparent. As an article by the noted management guru Tom Peters was once titled, "what gets measured gets done." The Postal Service has been diligent in the process of hearing mailers' needs and concerns, and NNA believes it has entered into the establishment of the system and its measurement in good faith. The publication of the internal system will introduce sunshine into the system and that could provide much of the cure needed for problems newspapers now experience in some delivery areas.

For an additional benefit, mailers will be able to use service data to improve and adjust their own mail systems. Newspapers may ultimately conclude, for example, that some long distance delivery standards have never been achieved and will never be achieved. Many will opt to urge the long-distance subscribers to accept electronic editions. (The question, of course, will be where the erosion of mail stops once that electronic option becomes widely available.)

The Intelligent Mail system is expected to provide a massive body of data for this system in time. It is poised to provide significantly more granular data about individual mailings, containers and mail pieces. The Postal Service has said it is developing the system for the mailers' benefit.

It can be expected that the Service will want to give mailers maximum visibility for purposes of mail management, but not for compliance measures. It will want to claim that some reports are proprietary, especially when created for a category of mail where mailers could be identifiable. And it can be expected that the Service will want to omit data for aberrant conditions. For example, USPS

will reasonably object to being measured for service in bad weather, when mailers' behavior is all or partially at fault for delay and when contractors' failures (such as trucking snags or air delivery) create delays. NNA believes the Postal Service deserves some latitude to develop a system that allows for exceptions. The Commission also should recognize proprietary concerns, but the Service's proprietariness claims should not be dispositive in questions of transparency. The need to hold the system accountable should be permitted to override. And mailers must be free to provide USPS reports of their own Intelligent Mail data to the Commission on a public docket, as well as any other anecdotal data mailers may develop to test the IM data.

- a. Intelligent Mail will not detect a substantial portion of newspaper mail volumes.

Intelligent Mail will not produce all the measurements and it will not capture data on some of the mail that is most vulnerable. It is not clear what the mailer cost will be in adapting to use of the codes. Plus IM will require scanners, which are not likely to be available for some time in many rural areas, nor in most delivery units.

It is not clear that UFSM machines often used to sort newspaper mail, for example, will be able to scan Intelligent Mail barcodes, nor that UFSM machines will even be available in plants where they now exist. As FSS displaces AFSM machines, it is likely AFSM will migrate to smaller plants and displace the UFSM. NNA's experience is that plant managers sometimes resist starting the UFSM if AFSM is available, and that they are edgy about working newspaper mail on the AFSM (although the newspapers seem to create no problems on AFSM in many plants.) Rather, they will run the predominant volume of flat mail on AFSM and send the residual mail to manual sortation. In these circumstances, the newspaper mail may elude the electronic scanners altogether.

It is also not likely that delivery units will have scanners for mail pieces. Mailpieces dropped at a Delivery Unit for delivery within that 5 digit area would not be scanned if that is the case. At this time, delivery performance is high in this sector, and the absence of individual piece data is not a large concern. But the potential for new service problems in any of these areas is unknown as FSS develops and the work carried out at DUs is changed.

For the nonautomation mail, sampling systems will have to be used. However, NNA is dubious about the probity of these systems for newspaper mail, having had mixed results with USPS efforts to capture the small newspaper volumes in this sub-stream. That is one reason why the internal measurement, while important and unavoidable, will be insufficient for newspaper mail.

The internal system, therefore, should provide both general and specific data from the Intelligent Mail measurement systems and from any other tracking that USPS uses. The data offered to mailers for their own corporate use may be considered proprietary, but it should be the mailers' option to bring the data onto the public record if they so choose. Finally, there must be some measurement of service outside the electronic environment by USPS, if the Commission and the Service are to comply with commands by Congress to monitor service to rural areas.

Notwithstanding NNA's belief that an internal measurement should be permitted to work, it also recognizes from long experience that the Postal Service's measurement of periodicals newspaper mail often leaves much to be desired. Newspaper mail is a segment of the overall outside county and inside county periodicals stream (and, increasingly, of the Standard mail stream as free newspapers enter the industry), but has far different distribution patterns from most magazines, newsletters and catalogs that dominate the bulk mail classes:

It is more heavily concentrated at original entry;

It is of lower density at outer zones;

It is provided by a wide array of small printers whose data systems are not compatible with one another; and

It is produced by mail owners who are not able, for a variety of reasons, to provide systematic data to the industry, to regulators or to the Postal Service.

The net effect of this profile is that the mail is hard for USPS to measure, Because of the size and number of the mailing businesses, it is often even harder for the industry to measure. Neither the mail.dat formats maintained by large printers nor the seeding systems so elegantly maintained by the Red Tag Association for magazines are practicable for the newspaper industry.

But the owners of this mail do share one characteristic with other mailers: they know when the Postal Service fails to meet expectations, and they know that it costs them business. Thus, they complain.

- b. External monitoring measurements by mailers can add to the record if the commission's rules welcome their data

NNA at present has an informal alert system to notify the Postal Service when persistent problems arise. It receives complaints through its Postal Committee. The undersigned chairman, Max Heath—a familiar witness at PRC hearings—alerts appropriate plant managers, supervisors and USPS management through almost legendary strings of electronic mail. NNA also heavily uses ePubWatch to put a spotlight on problems.¹

¹ ePub Watch has proven beneficial for publishers.. However, the problems often returns when the watch ends. Nonetheless, even this useful tool may be eliminated by the Postal Service, NNA understands.

This informal system does not produce quantifiable data. It is designed simply to diagnose and repair problems. But it provides the roots of a system that the industry could develop that would produce quantifiable data, albeit not systemic proportions.

Because of PAEA's mandate and the need for some handle on the nature and causes of newspaper delivery problems, NNA is examining the development of an online complaint system for newspaper mailers. The system could be made sufficiently transparent so that diagnostic managers within USPS could monitor problems if NNA provided access, as it would likely do. It also could be made to produce reports on the 3 digit pairs where problems are arising. It could produce reports on the length of time a problem had been reported but not repaired as well as recurrences after a repair has been implemented.

If such a system were used to report data to the Commission, however, NNA fully anticipates that it will be subject to the usual criticisms that anecdotal data receive: that reporters are self-selected and not statistically chosen or that samples are too small to impute to the wide mail universe. In addition, there may be concerns that data are produced third-hand via complaints from subscribers to the mail owner. NNA is aware to these criticisms and finds that there is little to be done to address them, but has tried nonetheless to do its best to provide data to the Commission in the past.

Having learned in the past that NNA's best efforts fall short, the association has not yet committed to the development of this database, pending guidance from the Commission on the potential uses and values of mailer data.

NNA believes a rule of reason should overcome reservations about the statistical validity of a small, self-selected sample. It could provide meaningful information. For example, a datum showing one subscriber in a given area remains on a complaint list for a succession of weeks could indicate that

diagnostics or systems have failed or that the “standard” has subtly shifted. Data showing a rise in complaints in a service area could show operational failures within a plant that both USPS management and employees need to address. Data could also show, as many publishers fear, that the increasing concentration of processing operations in large cities is leaving the areas served by NNA members in a world of hurt.

Setting up such an online complaint and database system would create significant cost for a small organization like NNA. The existing informal systems work well enough for diagnostics. Though interesting and relevant, a complaint tracking system inevitably will provide only spotlights, and not statistically valid measurements. Therefore, NNA’s governing body has determined that it will await the outcome of the Commission’s rules before expending resources on an online system.

There likely are other organizations in a similar position to NNA. Indeed, seeding systems like the Red Tag service are widely respected but still anecdotal and self-selecting, though they provide a picture of mail service. A dilemma facing the Commission will be whether to encourage use of similar systems. While they cannot equal systemwide statistical measurements, these reports may be the best information individual mailer or mailer organizations will be able to provide. Indeed, only the Postal Service knows where the mail goes and how it gets there, and at times, it appears, even USPS is not sure.² The Commission must seek the best data available. But if only USPS’s own measurements will be sufficient to show performance, small mailers will assuredly be left in the unmeasured margins.

III. The Value of the Mail Criterion Now Requires Consideration of Recipients as well as Mailers

² For example, end-of-day condition reports on unworked mail within plants reportedly has minimum thresholds of at least 1,000 pieces. If so, 999 pieces could sit untouched and unreported. NNA believes manually-sorted newspaper mail may often be among that residual amount.

As Order No. 21 observes, PAEA commands the Service and the Commission to consider how service standards can “enhance the value of postal services to both senders and recipients.” 39 U.S.C. 3691(b)(1)(A). The criterion presents an interesting new opportunity to re-examine the mailstream.

Since the mid 1980s, the Postal Rate Commission primarily considered the value of periodicals under what became known as the ECSI values, or the “educational, cultural, scientific and informational” value of the mail under 39 U.S.C. 3622 (b) (8). Consideration of the importance of the mail to the recipient has rarely been treated in the cases of intervenors, nor by the Commission itself, in a formal way.

Indeed, the consideration of the value of mail service to recipients, as opposed to the businesses and individuals sending the mail is an almost invisible element in rate design or cost allocation. On the rare occasion, the Commission has noted that while a sender may consider its mail full of informational value, “unsolicited” mail may justify a different rate treatment than mail requested by the recipient. See, e.g, the Commission’s rebuff of witness Kamerschen in Docket No. R94-1 at V-93, when the witness argued that the ECSI value of third-class mail should narrow its pricing gap with first-class mail.

But, as the pricing tug of war among mail classes has increasingly bumped against Ramsey pricing, the intense focus of the system has been upon the value of mail to the mailers. The recipient has all but dropped out of the picture. But now here, in section 3691(b)(1)(A) of PAEA, Congress commands new attention to the recipients.

NNA has often reminded the Postal Service that the vanishing act of personal correspondence from the mailstream means the coveted “Mail Moment” for most recipients on most days consists of unsolicited mail. Consumer pushback is beginning to be detected in the introduction of Do Not Mail bills in

nearly a dozen state legislatures in the 2007 sessions, as the Commission noted in its field hearing on June 21, 2007, in Kansas City. NNA opposes these bills and believe them to be destructive to the economy, not to mention universal service, but also notes that consumers will be more inclined to trust their own eyeballs than the predictions of macro-economists. It would be good for all elements of the system to work to preserve the mail of greatest value to the recipients.

The 2006 Household Mail Diary study reported that 60 percent of mail received in residences is now advertising mail and that the percentage is growing. Periodicals, on the other hand, are shrinking in the mailstream, having declined from 1.7 pieces to 1.1 pieces per household from 1987 to 1995. The Household Diary Study: Mail Use and Attitudes in FY 2005. United States Postal Service (April, 1996). This erosion should be a matter of concern by USPS as well as by the Commission, because it also erodes the value of the mailbox.

Of course, the Household study attributes the periodicals trend in part to shrinking daily newspaper circulation, despite the repeated concessions by its own witness Tolley in rate case after rate case that daily newspapers are not typically delivered by mail, and that the Postal Service uses these circulations as a proxy because that is all it can find. NNA has pointed out the fallacies in this explanation for 20 years and hopes it will eventually convince the Postal Service that a better analysis is needed.

NNA has no criticism of unsolicited mail. Its members are creators of a segment of it. Nor does NNA believe all unsolicited mail is unwanted mail. But it has believed, and continues to believe, that the ECSI value of periodicals is not the only element of periodicals worth considering. Periodicals is a class, like parcels, where recipients must trigger the sending. Mail that recipients request should be of paramount value in a system where competing values collide.

The Commission could and should recognize testimony like that provided by NNA's witness Berry in the June 21 field hearing, and by NNA's witnesses in Dockets R2006-1, R2000-1 and R97-1 about the loss of subscribers. Poor delivery of time-sensitive publications clearly has had something to do with the shrinking periodicals mailstream. The fact that the Postal Service cannot quantify the circulations of the newspapers that depend upon the mail, and therefore is unable to detect the impact of its chronic service problems does not mean the impact does not exist.

The Postal Service is not likely to develop more revealing data on how poor service causes subscription cancellations, drives periodicals mail out of the mailbox and removes one more piece of solicited mail from the mail mix. It would hardly be in the Service's interest to prove this point. But periodicals publishers will tell this story if permitted. But these stories, again, will be largely anecdotal, and will require the Commission to follow logic rather than statistical demonstrations to justify holding the Postal Service to high standards for periodicals.

The Commission's powers to encourage high standards of performance are yet to take shape. Pricing sanctions are one obvious tool.

Witness Berry made an important point clear, however: publishers do not seek prices lowered by poorer service. What they need is service made possible by transparency and vigilance. These tools are the first in an array that PAEA permits. To NNA, they will be the most critical.

Conclusion

NNA is in its fourth decade of providing information for the PRC record. Running through the history is a concern for service, because service is critical to time-sensitive publications. NNA urges the Postal Service to publish the 3 digit

zip code pair standards, and for the Commission to track their evolution over time. NNA believes USPS should be given latitude to develop its own service measurements, and that Intelligent Mail data should add to the record. However, Intelligent Mail will not expose all service flaws. USPS must develop other systems as well. In addition, the Commission should explicitly welcome by rule the industry-wide, individual and anecdotal data from mailers. It should apply sanctions when necessary. However, mailers do not seek sanctions: they seek reliable service. The Commission's shared mission on monitoring service will accomplish a great deal through urging transparency into the system.

Respectfully submitted,

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Certificate of Service

I hereby certify that I have this 16th day of July, 2007, caused to be served the foregoing document in accordance with sections 12 and 20(c) of the rules of practice.

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Association